Opening Statement

Chairman Michael G. Oxley

House Committee on Financial Services

"Wrong Numbers: The Accounting Problems at WorldCom"

July 8, 2002

Good afternoon. I would like to begin by thanking my colleagues for returning early from their Independence Day District Work Period in order to take active roles in this important hearing. On July 4th, we celebrated the 226th anniversary of the issuance of the Declaration of Independence, which opened the door to freedom and self-government for Americans and, eventually, for all mankind. We celebrated American ideals such as selflessness, respect for others, and obedience to a higher law. We honored the ultimate sacrifice by our heroes who, long ago and just last year, placed those virtues above self-interest and beyond the temptations of affluence, protecting others instead of themselves.

Unfortunately we must return to the people's House today to investigate a stark and outrageous contrast to those ideals, and yet another example of the decline of ethics in American culture during the 1990s. The latest company to abuse the public trust is WorldCom. It appears that senior WorldCom executives deliberately hid almost $4 billion in expenses, disguising its true performance in order to keep earnings in line with analysts' estimates. The announcement of this fraud turned WorldCom from a world-beater into a penny stock and forced it to lay off thousands of blameless employees.

If these charges are proven, WorldCom executives who participated in the fraud should have to return any profits from stock sales made during the five quarters of misreported earnings. It would be simply wrong to allow them to profit from criminal behavior. I would note that the Committee's corporate and accounting reform legislation, CARTA, which passed the House on a strong bipartisan vote on April 24, includes a disgorgement mechanism for situations like this.

During the telecom boom of the nineties, WorldCom's stock was highly prized and was held by state pension funds, institutional investors and millions of average Americans. The stock has plummeted from a high of nearly $65 a share just a few years back. This betrayal to the spirit of the Fourth of July by senior WorldCom managers is so immense that it could cost tens of thousands of workers and average citizens their livelihood and life savings. How could something like this have happened and what can be done to try to prevent a recurrence?

To get the answers, we have invited a number of individuals here today who know or should have known what happened. They owe this Committee, and the public, a thorough explanation. Our witnesses include former and current CEOs of WorldCom, its Chairman of the Board of Directors, its former Chief Financial Officer, its former Controller, the Arthur Andersen partner in charge of the WorldCom audit, and Jack Grubman, a telecom analyst from Citigroup's Salomon Smith Barney unit who had an unusually close relationship with WorldCom executives, and who was for years WorldCom's biggest advocate on Wall Street. In the Committee's ongoing inquiry into the research practices of equity analysts, we want to explore the nature of these relationships and try to determine whether Mr. Grubman's failure to recommend that investors sell their WorldCom stock until it became virtually worthless can be explained by the hundreds of millions of dollars in underwriting fees that his firm collected from WorldCom.

In the late 1990s, many so-called experts proclaimed that there was virtually unlimited potential for telecommunications companies to carry high speed data over their fiber optic networks. As we have seen recently with the difficulties experienced by Global Crossing and others, that demand did not materialize. During my two decades of service in the House, I have worked on telecommunications issues of all kinds. It was long ago clear to me what the value of a robust, competitive telecommunications environment has meant to America's economy and our continued role in the forefront of the world marketplace. While different companies dealt with a changed market reality in a variety of ways, none has yet shown the audacity to commit fraud on the scale that has been alleged here.

I am hopeful that we will be able to learn a great deal from our witnesses today. At the same time, I am also aware that the concurrent investigations by the Securities and Exchange Commission and the Department of Justice will continue, as will this Committee's efforts, until a loud and clear message has been sent that accounting fraud, and all business illegalities, will not be tolerated. I fully expect the results of the investigations of the SEC and the Justice Department to return to the American public the confidence needed to invest in America's telecommunications companies and other industries. On Wednesday, our Committee agreed to a request from the Justice Department to assist them by not calling Ms. Cynthia Cooper, Vice President for Internal Audit for WorldCom, and Mr. Max Bobbitt, a member of WorldCom's Board of Directors and Chairman of its Audit Committee, to testify today.

The thousands of fired WorldCom employees who face an unknown future, and the millions of investors who lost so much of their retirement savings, all apparently due to the greed and selfishness of a few rich insiders, demand that we engage in the search for truth and justice. And make no mistake, the consequences to this sort of criminal activity, should it be proved, should be severe, and that may mean time in Federal prison.

From the founding fathers, to the heroes of 9/11, to our soldiers fighting the war against terrorism, Americans have always proven themselves willing to take risk and to do so in an honest and forthright manner. Today, we urge corporate America to live up to those ideals.